

## Message Text

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ACTION NEA-10

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FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3975

C O N F I D E N T I A L ABU DHABI 0489

E.O. 11652: N/A

TAGS : EFIN, EALR, TC

SUBJECT : UAE INVESTABLE SURPLUS FOR 1976

REF: ABU DHABI A-7

SUMMARY: EMBASSY BELIEVES RECENTLY PUBLICIZED FIGURE OF DOLLARS  
4.8 BILLION AS UAE INVESTABLE SURPLUS IS MUCH TOO HIGH. END  
SUMMARY.

1. EMBASSY ESTIMATES UAE TOTAL OIL SECTOR FOREIGN EXCHANGE  
EARNINGS (NET TAXES AND ROYALTIES) FOR 1976 AS FOLLOWS:

A) ABU DHABI	DOLLARS 6,017.7 MILLION
B) DUBAI	DOLLARS 1,000.0 MILLION
C) SHARJAH	DOLLARS 72.0 MILLION
TOTAL	DOLLARS 7,089.7 MI

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2. LEAVING THE QUESTION OF CAPITAL INFLOWS (PARTICULARLY  
LONG TERM CAPITAL) THE UAE CANNOT INVEST ABROAD MORE THAN  
CURRENT ACCOUNT SURPLUS ESTIMATE FOR WHICH IS:

OIL EXPORTS	DOLLARS 7.0 BILLION
IMPORTS	DOLLARS 3.0 BILLION
FOREIGN AID	DOLLARS 1.2 BILLION

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CURRENT ACCOUNT SURPLUS DOLLARS 2.8 BILLION

CONSIDERING OTHER CURRENT ACCOUNT TRANSFERS SUCH AS REMITTANCES BY EXPATRIATE WORKERS AND FOREIGN OWNED COMPANIES, IMPORTS OF SERVICES, AND MILITARY IMPORTS, BALANCE ON CURRENT ACCOUNT CAN EASILY BE GOOD DEAL LESS THAN 2.8 BILLION SURPLUS.

3. THE UAE'S TOTAL FOREIGN EXCHANGE EARNINGS ARE DISTRIBUTED AS FOLLOWS:

A) ABU DHABI GOVERNMENT	DOLLARS 4,419.2 MILLION
B) ABU DHABI NATIONAL OIL COMPANY	DOLLARS 1,366.6 MILLION
C) ABU DHABI PRIVY PURSE (E.E. SHAIKH ZAYED)	DOLLARS 231.9 MILLION
D) GOVT OF DUBAI	DOLLARS 1,000.0 MILLION
E) GOVT OF SHARJAH	DOLLARS 50.0 MILLION
F) GOVT OF UMM AL-QAIWAIN	DOLLARS 22.0 MILLION
TOTAL	DOLLARS 7,089.7 MILLION

4. FROM THESE EARNINGS, SOURCES OF FUNDS FOR DISCRETIONARY INVESTMENT WILL BE (A) POTENTIALLY 15 PERCENT OF ABU DHABI GOVT REVENUE (DOLLARS 660 MILLION); (B) POTENTIALLY ANY ADNOC EARNINGS ABOVE DOLLARS 200 MILLION (DOLLARS 1.2 BILLION); (C) POTENTIALLY ALL OF ZAYED'S PRIVY PURSE (DOLLARS 232 MILLION). TOTAL OF THESE SOURCES IS DOLLARS 2.2 BILLION.

5. IT SHOULD BE EMPHASIZED THAT INVESTABLE SURPLUS OF DOLLARS 2.2 BILLION CALCULATED ABOVE IS MAXIMUM AMOUNT. FOR EXAMPLE, ALTHOUGH ABU DHABI FINANCE DEPT IS HOPEFUL OF SETTING TARGET FOR INVESTMENT OF 15 PERCENT OF 1976, GOAL MAY NOT BE REACHED FOR TWO REASONS. FIRST, GOVERNMENT REVENUE IN 1976 OF ROUGHLY DOLLARS 4.5 BILLION REPRESENTS ONE BILLION DOLLAR INCREASE OVER 1975. THIS WILL UNDOUBTEDLY STIMULATE DEMANDS FOR INCREASED DOMESTIC SPENDING. SECOND, ZAYID HAS TENDENCY TO GIVE SURPLUS AWAY IN FORM OF GRANTS TO FOREIGN COUNTRIES RATHER THAN INVEST IT.

6. WITH REGARD TO ADNOC EARNINGS, ABU DHABI FINANCE DEPT. MANAGES ALL COMPANY'S CASH RESERVE OVER DOLLARS 200 MILLION. ADNOC HOWEVER WILL FACE LARGE FINANCIAL COMMITMENTS NOT ONLY IN 1976 BUT WELL INTO NEXT DECADE. FIRST, ADNOC HAS NUMBER OF SUBSIDIARY COMPANIES INCLUDING: THE NATIONAL GAS LIQUIFICATION COMPANY, THE NATIONAL TANKER COMPANY, THE NATIONAL COMPANY  
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FOR DISTRIBUTION, THE NATIONAL DRILLING COMPANY, THE NATIONAL PETROLEUM CONSTRUCTION COMPANY, THE NATIONAL PLASTIC PIPES COMPANY, AND THE NATIONAL CHEMICALS COMPANY. SECOND ADNOC IS PARTICIPATING IN AT LEAST THREE FOREIGN JOINT VENTURES: THE PAKARAB REFINERY AND PAKARAB FERTILIZER PLANT (BOTH IN PAKISTAN) AND A COMPANY BEING ORGANIZED IN MOROCCO FOR PHOSPHATE ROCK PROCESSING. THIRD, ADNOC WILL BE THE EXECUTING AGENCY FOR ABU DHABI'S PLANNED PETROCHEMICAL COMPLEX, ESTIMATED COST OF

WHICH IS DOLLARS 3 BILLION PLUS. FOURTH, AS 60 PERCENT OWNER OF OPERATING COMPANIES, ADNOC WILL BE INVESTING CONSIDERABLE FUNDS IN THE PRODUCTIVE FACILITIES OF THE CONCESSION AREAS ESPECIALLY OFFSHORE. ON OTHER HAND, THE ABU DHABI FINANCE DEPT. HAS INDICATED TO US THAT NOT ALL OF THESE INVESTMENTS CAN OR SHOULD BE MET SOLELY FROM ADNOC'S INTERNAL CASH RESERVES, ESPECIALLY THE INVESTMENTS FOR THE PETROCHEMICAL COMPLEX. POSSIBILITIES OF EXTERNAL DEBT AND EQUITY FINANCING WILL CLOSELY BE INVESTIGATED. TO THE EXTENT THAT EXTERNAL FINANCING FOR THESE PROJECTS IS AVAILABLE, ADNOC CASH RESERVES WILL BE AVAILABLE FOR DISCRETIONARY INVESTMENT BY THE ABU DHABI GOVERNMENT.

7. DUBAI WILL ALSO RECEIVE INCREASED REVENUE IN 1976. AS OPPOSED TO ABU DHABI, SEVERAL DUBAI INFRASTRUCTURE AND INDUSTRIAL PROJECTS ARE FINANCED BY EXTERNAL BORROWING (UNDER THE RULER'S GUARANTEE). DUBAI'S EXTERNAL DEBT IS THOUGH TO BE ABOUT DOLLARS 600 MILLION. DUBAI DOES NOT PUBLISH FINANCIAL STATISTICS OF ANY KIND AND OBSERVERS GIVE VARYING ESTIMATES FOR DUBAI'S EXPENDITURES. TOTAL SPENDING BY THE DUBAI GOVERNMENT MAY REACH AS HIGH AS DOLLARS 650 MILLION (INCLUDING DEBT SERVICING) LEAVING A SURPLUS OF UP TO DOLLARS 350 MILLION. IF PAST PERFORMANCE IS ANY GUIDE, THIS SURPLUS WILL REMAIN IN STERLING DEPOSITS IN LONDON.

8. IN SUM, THE UAE'S INVESTABLE SURPLUS, PRIMARILY THAT PORTION OF IT UNDER CONTROL OF ABU DHABI INSTITUTIONS, IS CLEARLY SUBJECT TO A NUMBER OF DOMESTIC AND FOREIGN VARIABLES, ALL OF WHICH TEND TO LIMIT SURPLUSES AVAILABLE FOR DISCRETIONARY INVESTMENT ABROAD.  
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